

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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**Date:** 9/1/2010

**GAIN Report Number:** NZ1013

## New Zealand

### Livestock and Products Annual

#### Beef Livestock Inventory Down, Exports Likely to Follow

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**Report Highlights:**

MY2010 Slaughter is now estimated at 3.797million head and total exports stable at 510,000T CWE and the total inventory of beef livestock has been estimated to have fallen 4.3% to 3.92m head in MY2010. For MY2011 total slaughter is forecast at 3.76m head and exports are expected to drop to 496,000T CWE.

## Executive Summary

Total cattle slaughter rates are running marginally behind last year. The decline is not as large as originally forecast as a drought in the upper portion of the North Island encouraged farmers to send cattle to slaughter early. The MY 2010 total slaughter estimate has been revised upward by 1.6% to 3.797 million head.

Total slaughter in MY 2011 is forecast at 3.76 million head, a 1% decline from last year.

The export forecast for MY 2010 remains unchanged at 510,000 tons carcass weight equivalent (CWE) or 364,286 tons product weight equivalent (PWE).

Although exports during the first half of MY2010 were running 2.4% ahead of last year, demand in most export markets is sluggish. Subdued demand, combined with the lingering effects of the drought, a relatively severe winter, and a strong New Zealand dollar, suggest exports will not increase above the originally forecast level. The forecast decline in production, combined with stable domestic consumption, suggests that exports will fall 3% in MY 2011 to 496,000 tons CWE.

The United States continues to be New Zealand's single largest export destination. However, the importance of the U.S. market has drifted downward from 66% in 2000, to 49% in 2005 and 46% in 2009. In the meantime, South Asian markets, particularly Indonesia and the Philippines, and to a lesser extent Korea and Japan, have grown in importance. This trend is expected to continue in the future. Absent any significant changes, exports to the U.S. market are forecast to fall to 221,000 tons (CWE) in MY 2011. Manufacturing or processing beef accounts for the bulk of New Zealand exports to the U.S. market.

### **Commodities:**

Animal Numbers, Cattle

Meat, Beef and Veal

# **Production**

## **Beef Herd Numbers**

According to Beef + Lamb New Zealand (formerly Meat and Wool New Zealand), total beef cattle numbers fell 4.3% to 3.92 million head as of June 30, 2010. The decline was more pronounced on the South Island, where numbers fell 5.9% compared to 3.7% on the North Island. A tight supply situation for feed drove a decline in finishing cattle in many regions of the country. A return to lamb finishing, which has become more profitable over the last two seasons, also contributed to the decrease. Beef + Lamb also reported that the number of beef breeding cows increased 3.7% to 1.136 million due to a rebuilding of beef herds, particularly in the hill country and the eastern regions of both the North and South Islands.

## **MY2010 Slaughter Numbers**

Total cattle slaughter rates are running marginally behind last year. The decline is not as large as originally forecast as a drought in the upper portion of the North Island encouraged farmers to send cattle to slaughter early. The MY 2010 total slaughter estimate has been revised upward by 1.6% to 3.797 million head.

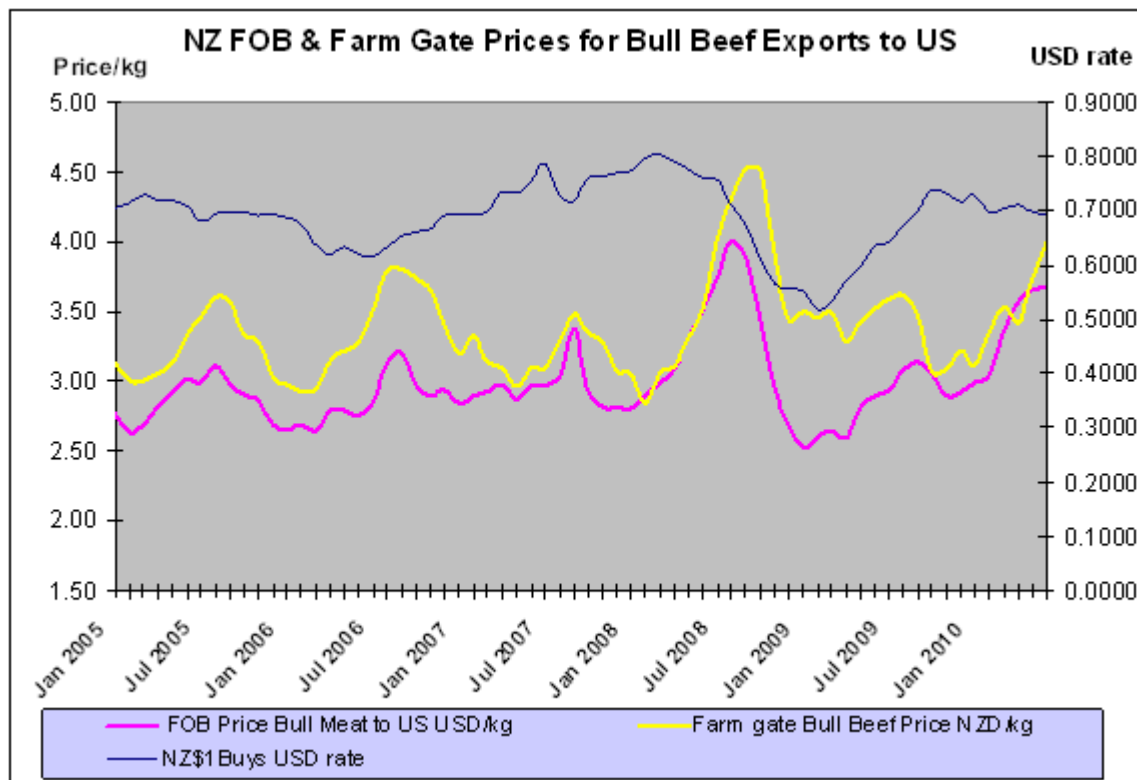
The estimate for the number of steers slaughtered has been revised upward by 23,000 head to 609,000 head, and the estimate for heifers has been revised upward by 63,000 head to 483,000. The increase in the slaughter of heifers partly reflects surplus dairy heifers being culled. The drought, along with the ongoing conversion of beef and sheep farms to dairy farms, also resulted in more capital stock being sent to slaughter. While the steer and heifer slaughter is up, the estimate for bull slaughtered has been revised downward because of a lack of replacements being reared out of the surplus progeny in the dairy sector.

## **MY2011 Slaughter Numbers**

Total slaughter in MY 2011 is forecast at 3.76 million head, a 1% decline from last year. However, an expected 40,000 head (2.7%) increase in the calf kill is masking a forecast 5% drop in slaughter numbers of other adult cattle (heifer, steer and bull) to 1.45 million head. (A decline in heifer and bull slaughter, by 33,000 and 36,000 head respectively, account for 90% of the reduction in slaughter numbers for the other adult category). An ongoing decline in the size of the New Zealand beef herd, which has fallen 11% over the last five years,

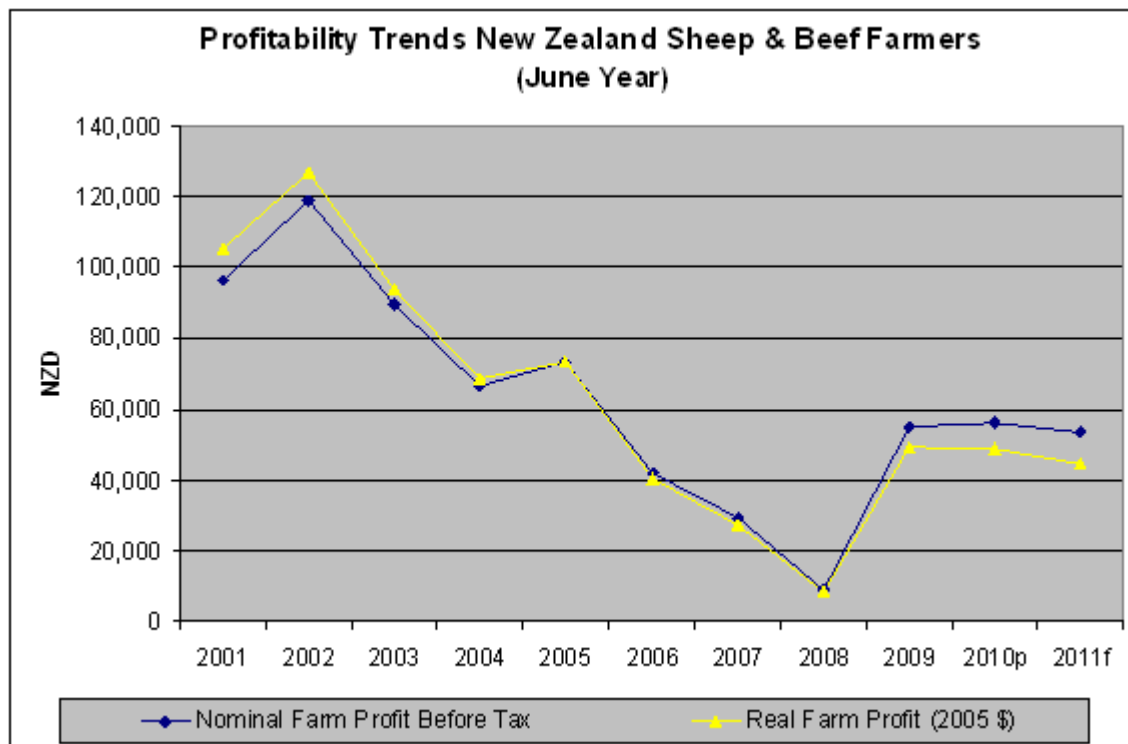
means there are simply fewer animals available for slaughter. A lack of profitability, especially compared to dairy production, is a primary reason for the drop in herd size. Drought and land use changes (conversions to dairy production) over the past three years have also played a part in the decline in stock numbers. In addition, land formerly used for beef is increasingly being used for dairy support, either for grazing replacement stock or supplemental feed production.

## Farm Gate Beef Prices



Source: GTA, Reserve Bank NZ, Market Insight

## Farmer Profitability



Source: Beef+LambNZ

## Future Prospects for Cattle Production

Slaughter numbers in the New Zealand beef sector are expected to continue to decline in the near term. Poor profitability is a major reason for the decline. Increases in on-farm costs, including compliance costs, combined with a continued reliance on supplying manufacturing/processing beef, have conspired to minimize returns to producers. In the current environment, many producers do not find it economical to feed supplements. Instead, they rely on pasture production, which can vary significantly from year to year.

## Beef Production

### MY2010

The forecast for MY 2010 beef production remains unchanged at 619,000 tons. Although the total slaughter estimate has been revised upward, average carcass weights are likely to be down. The drought in the northern half of New Zealand during the first half of the marketing year hastened slaughter but resulted in lower live weights.

### MY2011

MY 2011 production is forecast to fall 2.3% to 604,750 tons. This is primarily the result of a 5% drop in other adult cattle slaughter (steers, heifers and bulls) which reflects the ongoing decline in herd size. Although average carcass weights will likely increase, it will not be enough to stem the drop in production.

<b>New Zealand Beef Production</b>									
<b>Marketing Year</b>	<b>2009</b>			<b>2010 Estimate</b>			<b>2011 Forecast</b>		
	Est. CW Kgs/Hd	Slaughter Numbers	Total Beef in Tons	Est. CW Kgs/Hd	Slaughter Numbers	Total Beef in Tons	Est. CW Kgs/Hd	Slaughter Numbers	Total Beef In Tons
Cow Slaughter	200.3	838	167851	200	810	162084	200	810	162000
Calf Slaughter	16.5	1,454	23991	16.5	1,460	24094	18	1,500	27000
Heifer Slaughter				233	483	112553	235	450	105750
Steer slaughter				305	609	185642	310	600	186000
Bull Slaughter				309	436	134586	310	400	124000
Other Adult Cattle Slaughter	282	1,533	432245	283.4	1,527	432780	286.7	1,450	415750
Total Slaughter	163.2	3,825	624087	163	3,798	618,958	160.8	3,760	604750

Source: Post, MAF, Beef + Lamb NZ, Statistics NZ

## PSD Tables

Animal Numbers, Cattle New Zealand  (1000 head)	2009			2010			2011		
	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data
Total Cattle Beg. Stks	9,715	9,715	9,715	9,917	9,917	9,917			9,887
Dairy Cows Beg. Stocks	4,348	4,348	4,348	4,597	4,597	4,597			4,753
Beef Cows Beg. Stocks	1,104	1,104	1,104	1,081	1,081	1,096			1,136
Production (Calf Crop)	4,523	4,523	4,523	4,540	4,540	4,400			4,462
Intra-EU Imports	0	0		0	0	0			
Other Imports	0	0		0	0	0			
Total Imports	0	0	0	0	0	0			0
Total Supply	14,238	14,238	14,238	14,457	14,457	14,317			14,349
Intra EU Exports	0	0		0	0	0			
Other Exports	13	13	13	13	13	18			20
Total Exports	13	13	13	13	13	18			20
Cow Slaughter	838	838	838	808	808	810			810
Calf Slaughter	1,454	1,454	1,454	1,460	1,460	1,460			1,500
Other Slaughter	1,533	1,533	1,533	1,469	1,469	1,527			1,450
Total Slaughter	3,825	3,825	3,825	3,737	3,737	3,797			3,760
Loss	483	483	483	621	621	621			625
Ending Inventories	9,917	9,917	9,917	10,086	10,086	9,887			9,944
Total Distribution	14,238	14,238	14,238	14,457	14,457	14,323			14,349
CY Imp. from U.S.	0	0		0					
CY. Exp. to U.S.	0	0		0					
Balance	0	0	0	0		6			0
Inventory Balance	202	202	202	169		(30)			57
Inventory Change	0	0	0	2		2			0
Cow Change	(1)	0	(1)	2		0			0
Production Change	2	1	2	0		(3)			1
Production to Cows	83	81	83	80		77			76
Trade Balance	13	15	13	13		18			20
Slaughter to Inventory	39	40	39	38		38			38
TS=TD			0			6			0

Meat, Beef & Veal New Zealand (1000hd, 1000MT CWE)	2009			2010			2011		
	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data	Off. Data	Post Est.	New Post Data
Slaughter (Reference)	3,825	3,825	3,825	3,737	3,737	3,797			3,760
Beginning Stocks	0	0	0	0	0	0			0
Production	624	624	624	619	619	619			605
Intra-EU Imports	0	0	0	0	0	0			
Other Imports	10	10	10	11	11	10			11
Total Imports	10	10	10	11	11	10			11
Total Supply	634	634	634	630	630	629			616
Intra EU Exports	0	0		0	0	0			0
Other Exports	514	514	514	510	510	510			496
Total Exports	514	514	514	510	510	510			496
Human Dom. Consumption	120	120	120	120	120	119			120
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	120	120	120	120	120	119			120
Ending Stocks	0	0	0	0	0	0			
Total Distribution	634	634	634	630	630	629			616
CY Imp. from U.S.	0	0	0	0	0	0			
CY. Exp. to U.S.	235	235	235	235	235	235			221
Balance	0	0	0	0	0	0			0
Inventory Balance	0	0	0	0	0	0			0
Weights	163	163	163	166	166	163			161
Production Change	(3)	(3)	(3)	(1)	(1)	(1)			(2)
Import Change	(17)	0	(17)	10	10	0			10
Export Change	(4)	(2)	(4)	(1)	(1)	(1)			(3)
Trade Balance	504	504	504	499	499	500			485
Consumption Change	(2)	(2)	(2)	0		(1)			1
Population	4,213,418	4,213,418	4,213,418	4,252,277		4,347,200			4,388,000
Per Capita Consumption	28	29	29	28		27			27
TS=TD			0			0			0

Note. These are not official USDA forecasts.



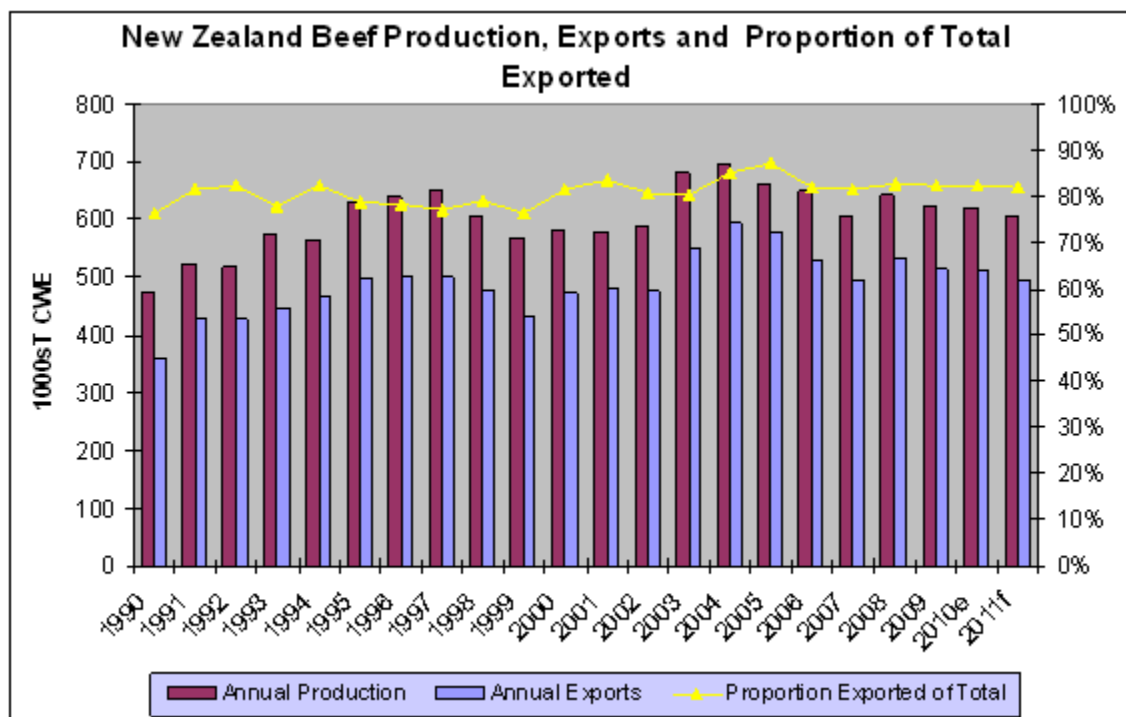
# Consumption

Consumption is forecast to remain stable through MY 2010. Supermarket prices for beef are relatively high compared to chicken and pork, and unless relative pricing changes, consumption levels are not expected to change.

<b>New Zealand Meat Consumption Per Capita for Marketing Years 2006 to 2009</b>						
Species	Per Capita consumption in Kilograms for Dec year				% change from previous year for:	
	2006	2007	2008	2009	2008	2009
Lamb	10.65	11.00	9.97	6.93	-9.4%	-30.5%
Mutton	3.23	2.91	2.95	2.59	1.4%	-12.2%
Total Sheepmeat	13.88	13.91	12.92	9.52	-7.1%	-26.3%
Beef	31.60	31.81	27.82	27.14	-12.5%	-2.4%
Bobby Veal	0.38	0.28	0.35	0.39	25.0%	11.4%
Total Beef Consumed	31.98	32.09	28.17	27.53	-12.2%	-2.3%
Total Red Meat	45.86	45.99	41.10	37.02	-10.6%	-9.9%
Chicken	34.09	34.67	32.27	30.40	-6.9%	-5.8%
Other Poultry	1.40	1.32	1.34	1.18	1.5%	-11.9%
Total Poultry	35.48	35.99	33.62	31.57	-6.6%	-6.1%
Pigmeat	18.96	20.88	19.82	19.65	-5.1%	-0.9%
Total Meat Consumed	100.28	102.87	94.54	88.25	-8.1%	-6.7%
Mean Population (000s)	4,148	4,217	4,271	4,329	1.3%	1.4%

Source: Beef + Lamb NZ

# Exports/Trade



Source: POST, PSD

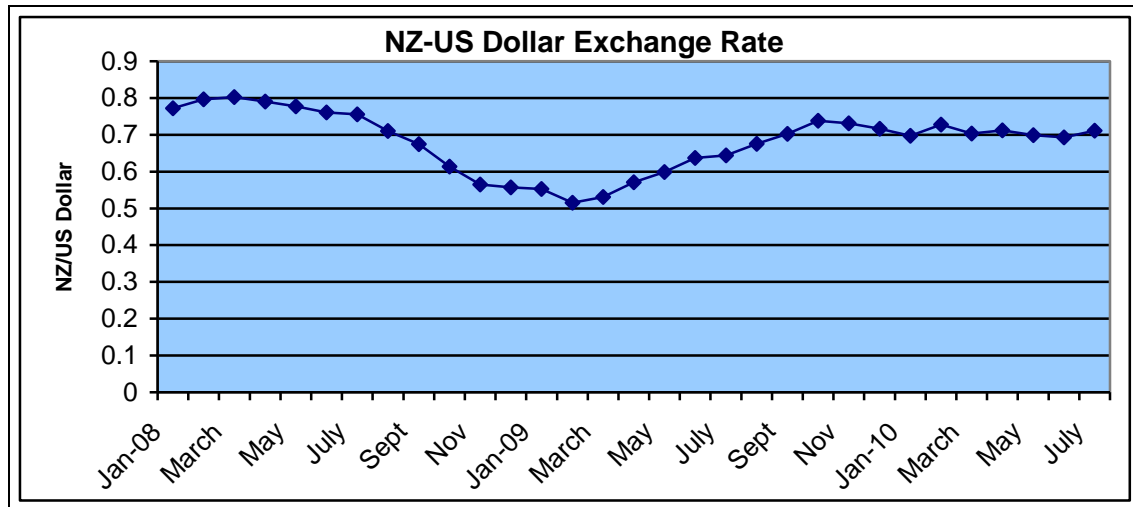
## MY2010

The export forecast for MY 2010 remains unchanged at 510,000 tons carcass weight equivalent (CWE) or 364,286 tons product weight equivalent (PWE).

Although exports during the first half of MY2010 were running 2.4% ahead of last year, demand in most export markets is sluggish. Subdued demand, combined with the lingering effects of the drought, a relatively severe winter, and a strong New Zealand dollar, suggest exports will not increase above the originally forecast level.

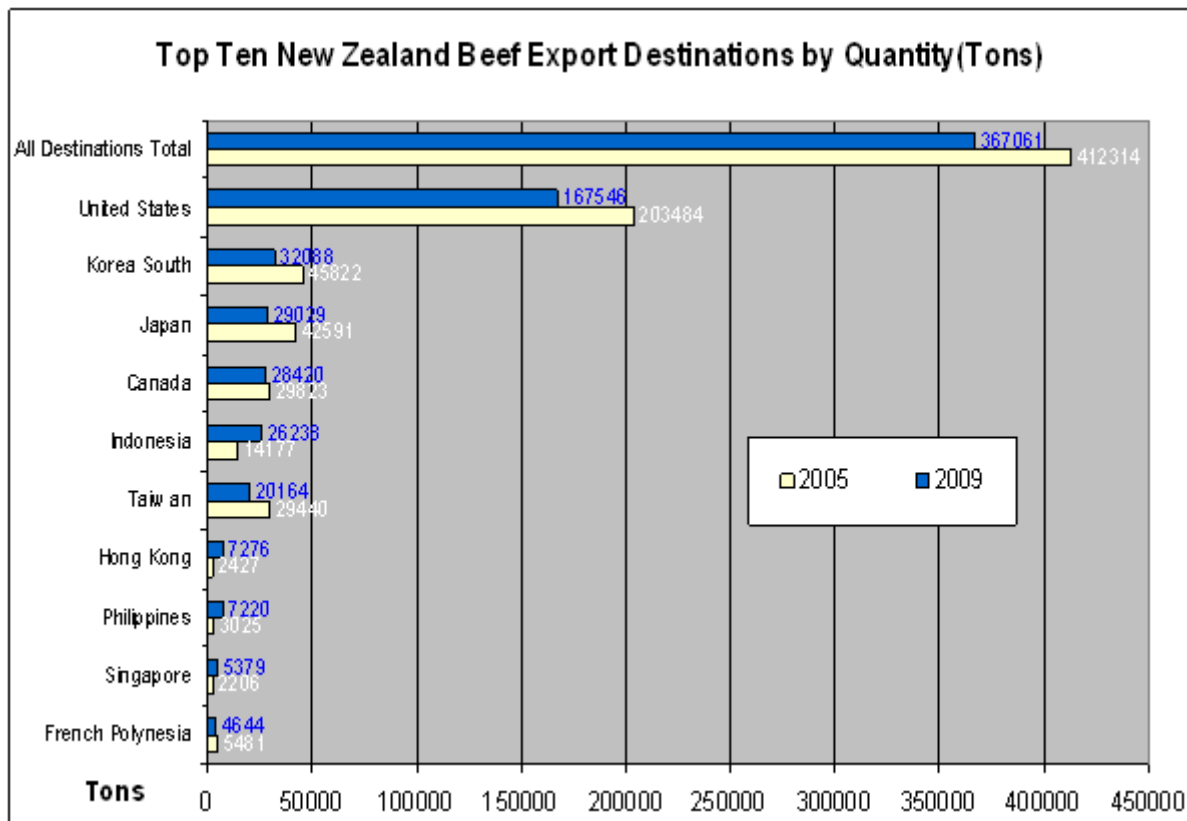
## Exports to the US Market Stable

At 111,278 tons PWE (155,799 tons CWE), exports to the US market during the first half of the marketing year were running 2,000 tons behind the same period last year. For the year, exports to the US market are forecast at 167,000 PWE (235,000 CWE), which is the same as last year. Exporters are reporting confidence in the US market at the moment. They are encouraged by the tight supply situation and don't see much downside risk to pricing in the US market over the next six months.



Source: RBNZ

Although Asian markets are becoming increasingly important to New Zealand exporters and the New Zealand Government is aggressively negotiating FTAs with a range of countries, at 46.4% of total exports, the US market is still the top export destination for New Zealand beef by far.



Source: Global Trade Atlas (GTA)

## **Korea is New Zealand's Second Largest Market**

Korea is New Zealand's second largest market by volume, accounting for 9.3% of total exports for the first six months of the MY. Exports during this period were up by 3,459 tons, or 18.4%, but exporters are reporting a softening of demand during the third quarter. They also report heavy competition from U.S. and Australian exporters.

The New Zealand Government is in the process of negotiating a free trade agreement with Korea.

## **Exports to Japan Increase During the First Half of the Year**

During the first half of MY2010, exports to Japan jumped 2,574 tons, a 14.8% increase, but exporters report that current demand is sluggish.

## **Export to China and Hong Kong Down Significantly**

During the first half of MY 2010, exports to China fell 17% to 1,381 (PWE) and exports to Hong Kong fell 30% to 3,600 PWE. Exporters report that price-sensitive Chinese buyers were able to find competitively priced, low-value cuts elsewhere.

While many New Zealand exporters see significant opportunities in China over the long term (with some estimating a market size of 20-30,000 tons PWE), they note that their regular customers are still predominantly taking low-value cuts. Although Chinese buyers tend not to want to go beyond a certain price level, New Zealand exporters report that there are opportunities to widen the product range going into China. In addition it has been reported that Chinese buyers have been sampling a wider range of products.

New Zealand's free trade agreement (FTA) with China, which went into force in 2008, hasn't yet had a measurable impact on trade. Under the agreement, Chinese tariff rates on beef have been decreased from a range of 12% to 25%, to 4% to 16.7%. Tariffs on New Zealand beef will be completely phased out by 2016.

## **Indonesian Market Shadowed by Uncertainty**

During the first half of MY 2010, exports to the Indonesian market jumped 32%. However, exporters have become cautious after the Indonesia's Director General of Livestock Services (DGLS) said in June 2010 that imports would be limited for the rest of the year. Exporters are uncertain as to how events will unfold and whether or not import permits will be required. Exporters have indicated that the rules on the age limit for live cattle imports,

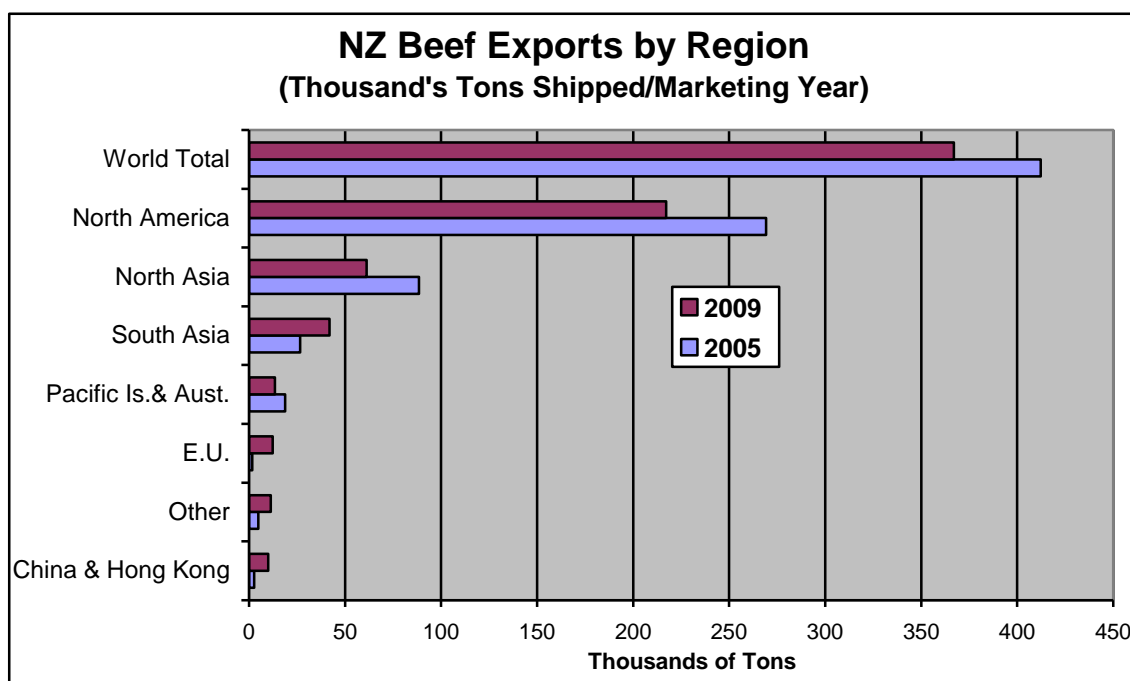
which haven't been enforced strictly in the past but were part of the June 2010 directive from the DGLS, will affect Australia but not New Zealand.

## Exports to Canada Down

Exports to Canada dropped by 7,576 tons, or 35%, during the first half of the year. Exchange rates and strong demand from other markets both played a role.

## MY2011

The forecast decline in production, combined with stable domestic consumption, suggests that exports will fall 3% in MY 2011 to 496,000 tons.



Source: GTA

While exports to developing countries, particularly South Asia, have grown significantly, the United States continues to be New Zealand's single largest export destination. However, the importance of the U.S. market has drifted downward from 66% in 2000, to 49% in 2005 and 46% in 2009. In the meantime, South Asian markets, particularly Indonesia and the Philippines and to a lesser extent Korea and Japan, have grown in importance. Post expects this trend to continue in the future. Absent any significant changes, exports to the U.S. market are forecast to fall to 221,000 tons CWE in MY 2011. Manufacturing or processing beef accounts for the bulk of exports to the U.S. market.

## Policy

## **Animal Welfare – New Code of Welfare for Sheep and Beef Cattle**

A new code of animal welfare for sheep and beef cattle was released in March 2010. More details can be found at:

<http://www.biosecurity.govt.nz/animal-welfare/codes/sheep-beef-cattle>

## **National Animal Identification and Tracing Scheme (NAIT)**

NAIT has now become law in New Zealand and will be implemented as of November 1, 2010. Initially, the electronic ear tagging and animal tracing scheme will be voluntary for cattle owners but will be mandatory as of November 1, 2011. At the moment, only cattle and deer are included. More detail on the scheme can be found at:

<http://www.nait.org.nz/>

## **Meat Industry Strategy**

In response to the continued lack of profitability, both at farm and processor level, and with the prospect of less stock to process in the future, a broad-based meat industry strategy is being formulated. In July 2010, Beef + Lamb NZ, the Meat Industry Association, New Zealand Trade and Enterprise, and the Ministry of Agriculture and Forestry (MAF) all agreed on terms of reference and funding levels for the first phase of a two-stage strategy. The first phase is expected to be completed during the first quarter of 2011. More information can be found at:

<http://www.beeflambnz.com/main.cfm?id=31&nid=290>

## **Primary Growth Partnership (PGP)**

The PGP, which replaced the Fast Forward Fund, is a government matching program intended to stimulate research and innovation in the primary, food and forestry sectors. In May 2009, the Government announced that it would make NZ \$30 million available under the program and gradually increase that amount to NZ \$70 million by 2012/13. The funding is to be appropriated directly from the annual agriculture and forestry fiscal budget rather than from a dedicated capital fund. More details on the fund can be found at:

<http://www.maf.govt.nz/pgp/>

One of the first projects funded under the PGP is a partnership between the Government, Silver Fern Farm (largest meat processor in NZ), PGG Wrightson (NZ's largest farm servicing company), and Landcorp (a state owned enterprise that owns and manages NZ's largest

farm). The seven-year program will focus on the value chain for red meat - from the farmers to the consumer. The project is expected to cost NZ \$151 million with the Government contributing NZ \$59.5 million over seven years.

## **TransPacific Partnership Agreement**

A FTA with the United States has long been a policy priority for New Zealand. The Obama Administration announced on November 14, 2009 that the United States will engage with the Trans-Pacific Partnership (TPP) countries, which includes New Zealand, Singapore, Chile and Brunei, "with the goal of shaping a regional agreement that will have broad-based membership and the high standards worthy of a 21st century trade agreement". Australia, Peru and Vietnam are also participating in the negotiations. The first round took place in March and the second round of negotiations took place in May 2010.

Meat and Wool NZ (now called Beef + Lamb NZ) and the Meat Industry Association jointly made submissions to the Ministry of Foreign Affairs and Trade on the TPP. In summary, they would like to see the US tariff rate quota, which currently stands at US 4.4 cents/kg, reduced to zero. They are also advocating elimination of the over-quota tariff rate, which is currently 26.4% on FOB value. They maintain that New Zealand's beef exports to the US are complimentary to US beef production because lean meat from New Zealand is blended with US fat trimmings to manufacture burgers, patties, and pizza toppings. Beef + Lamb contends that New Zealand only supplies at most 2% of total US consumption, and because of land constraints, is not going to be able to increase this.

More information on TPP can be found at:

<http://www.mfat.govt.nz/downloads/trade-agreement/transpacific/Submissions-part-7.pdf>

Further information on New Zealand's FTA's can be found at:

<http://www.mfat.govt.nz/Trade-and-Economic-Relations/Trade-Agreements/index.php>